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ACTION EB-08

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SUBJECT: CPI FOR DECEMBER 1976 QUARTER

REF: 76 CANBERRA 7702

1. AUSTRALIAN BUREAU OF STATISTICS ISSUED FEBRUARY 22
LONG-AWAITED CONSUMER PRICE INDEX (CPI) FOR DECEMBER 1976
QUARTER. OVERALL ALL-GROUPS INDEX FOR ALL SIX AUSTRALIAN
CAPITAL CITIES INCREASED 6.0 PERCENT OVER SEPTEMBER 1976
FIGURE. THIS IS LARGEST QUARTERLY CPI INCREASE IN MORE THAN
20 YEARS.

2. AS EXPECTED, PRINCIPAL ISSUE IN INTERPRETING LARGE
DECEMBER QUARTER INCREASE IS SIGNIFICANCE OF SHARE
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ATTRIBUTABLE TO NEW CHARGES FOR NATIONAL HEALTH INSURANCE
INTRODUCED OCTOBER 1. GOA RELEASE INDICATES THAT ABOUT ONE-
HALF OF TOTAL INCREASE RESULTS FROM MEDICAL AND HOSPITAL
SERVICES CATEGORY OF INDEX. INDEX COMPUTED WITH HOSPITAL
AND MEDICAL SERVICES CATEGORY EXCLUDED SHOWS DECEMBER QUARTER
CPI INCREASE OF 2.8 PERCENT. LARGEST CATEGORY INCREASES
OTHER THAN HEALTH CARE ARE IN FOOD, CLOTHING AND HOUSING

GROUPS.

3. A SECOND ISSUE OF INTERPRETATION IS THE EXTENT TO WHICH THE NOVEMBER-DECEMBER ADJUSTMENTS IN THE \$A EXCHANGE RATE HAVE BEEN REFLECTED IN THE DECEMBER CPI FIGURE. IT APPEARS PROBABLE THAT RELATIVELY LITTLE OF THE DEVALUATION EFFECT IS INCLUDED, BECAUSE, EXCEPT FOR THE FOOD CATEGORY, SAMPLING DATA FOR THE DECEMBER CPI FIGURE WERE TAKEN PRIOR TO THE NOVEMBER 28 DEVALUATION.

4. FOLLOWING ARE TREND COMPARISONS ON BASIS ALL GROUPS INCLUDING MEDICAL AND HOSPITAL SERVICES (1) DECEMBER 1976 QUARTER INCREASE 6 PERCENT (2) SEPTEMBER 1976 QUARTER INCREASE 2.2 PERCENT (3) DECEMBER 1975 QUARTER INCREASE 5.6 PERCENT (4) INCREASE FROM DECEMBER 1975 TO DECEMBER 1976 14.4 PERCENT.

5. FOLLOWING ARE COMPARISONS ON BASIS ALL GROUPS EXCEPT HOSPITAL AND MEDICAL SERVICES (1) DECEMBER 1976 QUARTER INCREASE 2.8 PERCENT (2) SEPTEMBER 1976 QUARTER INCREASE 2.2 PERCENT (3) DECEMBER 1975 QUARTER INCREASE 6.3 PERCENT (4) INCREASE FROM DECEMBER 1975 TO DECEMBER 1976 10.8 PERCENT.

6. EMBASSY COMMENT: PREDICATABLY THE GOVERNMENT IS MEMPHASIZING THE 2.8 PERCENT INCREASE (EXCLUDING THE HOSPITAL AND MEDICAL SERVICES CATEGORY) AND IS CONTRASTING THIS WITH DECEMBER 1975 QUARTERLY INCREASE OF 6.3 PERCENT UNDER THE LABOR GOVERNMENT THEN IN POWER, WHILE THE OPPOSITION IS LIMITED OFFICIAL USE

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EMPHASIZING (ON AN ALL GROUPS BASIS) THE SHARP INCREASE IN DECEMBER 1976 OVER SEPTEMBER 1976 AND THE FACT THAT AFTER A FULL YEAR OF THE PRESENT GOVERNMENT, THE DECEMBER 1976 QUARTERLY INCREASE IS HIGHER THAN THE COMPARABLE QUARTER OF 1975.

7. IN PRACTICE, THE LATEST FIGURE APPEARS TO PROVIDE SOME ENCOURAGEMENT FOR THE GOVERNMENT IN ITS ANTI-INFLATION EFFORT. THE NEW HEALTH INSURANCE CHARGES REPRESENT A ONE-TIME CPI ENTRY AND THE 2.8 PERCENT FIGURE DERIVED BY EXCLUDING THE HOSPITAL AND MEDICAL CATEGORY PROBABLY APPRXIMATES THE UNDERLYING INFLATION RATE. BUT THE EFFECT OF THE SUBSTANTIAL DEVELUATIONS DURING THE DECEMBER QUARTER MUST STILL BE RECKONED WITH IN THE MARCH AND JUNE CPI DATA AND WILL TEND TO RAISE THE FUTURE INCREASES. FOR THIS REASON, THE GOVERNMENT'S HOPE FOR A SINGLE-DIGIT 1977 INFLATION RATE APPEARS SLIM NOTWITHSTANDING PROGRESS TO DATE.

8. MEANWHILE, THE HIGH DECEMBER FIGURE, WHATEVER ITS ORIGIN, WILL UNDOUBTEDLY FUEL DETERMINED LABOR DEMANDS FOR A FULL 6 PERCENT INDEXATION WAGE RISE IN THE CONCILIATION AND ARBITRATION INDEXATION PROCEEDING WHICH WILL TAKE PLACE SHORTLY AND OPPOSING GOVERNMENT EFFORTS TO LIMIT THE INCREASE "PARTIAL" INDEXATION -- POSSIBLY AT ABOUT THE 2.8 PERCENT LEVEL

GIVEN (1) THE GROWING HEAT WITH WHICH LABOR HAS RESISTED "PARTIAL" INDEXATION DURING THE PAST YEAR, (2) ITS BITTER AND CONTINUING OPPOSITION TO THE HEALTH INSURANCE CHARGES, (3) ITS REPEATED THREATS TO ABANDON THE INDEXATION APPROACH UNLESS FULL INDEXATION IS RESUMED AND (4) THE CABINET'S ADAMANT OPPOSITION TO THE TAX REDUCTION TRADE-OFF WHICH LABOR HAS TENTATIVELY OFFERED AS AN ALTERNATIVE TO FULL INDEXATION, THE STAGE IS SET FOR AN ESPECIALLY DIFFICULT ROUND BEFORE THE CONCILIATION AND ARBITRATION COMMISSION. HARGROVE

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